

P-421/CP-91-487 ORDER ESTABLISHING RATES FOR POLLING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
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In the Matter of a Petition for
Extended Area Service From
Braham to Mora

ISSUE DATE: November 24, 1992

DOCKET NO. P-421/CP-91-487

ORDER ESTABLISHING RATES FOR
POLLING

PROCEDURAL HISTORY

On June 27, 1991, subscribers in the Braham exchange filed two extended area service (EAS) petitions: one for EAS between the Braham exchange and the Pine City exchange and one for EAS between the Braham and Mora exchanges.

On October 22, 1991, the Commission issued an Order denying the petition for EAS between Braham and Pine City for failure to meet the traffic requirement of Minn. Stat. § 237.161 (1990), found that the proposed Braham-Mora route did meet the traffic requirement and, accordingly, directed U S West Communications, Inc. (USWC) to file cost and rate information for the Braham-Mora route.

On December 20, 1991, USWC filed its costs and proposed rates for the Braham-Mora route.

On February 3, 1992, the Minnesota Department of Public Service (the Department) filed its report and recommendation regarding those costs and proposed rates.

On February 24, 1992, USWC filed comments regarding the Department's recommendation.

On March 27, 1992, USWC filed a new cost study and proposed rates and made a corrected filing on April 6, 1992.

The Department filed its report and recommendation regarding USWC's further cost studies and proposed rates and USWC responded on June 1, 1992.

On November 10, 1992, the Commisison met to consider this matter.

FINDINGS AND CONCLUSIONS

The Commission has previously found that the Braham petition for EAS to Mora meets the initial statutory criteria: adjacency and adequate traffic¹. Minn. Stat. § 237.161, subd. 1 (1990). The Commission will next proceed to determine whether the petition meets the final criterion: adequate subscriber support.

Before polling Braham subscribers, however, the Commission will adopt EAS rates to appear on the ballots to inform subscribers regarding the rates that they will experience if EAS is approved.

The Department has raised three issues which affect proposed rates. This Order will address those issues and establish polling rates for Braham.

1. Facilities Costs

The Department noted that USWC included in its cost study costs for a number of new circuits that may or may not be needed to provide the proposed EAS under the new host/remote arrangement which is scheduled to begin in July 1993. If the usage on the Braham-Mora trunks is less than USWC assumed, it is possible that no additional circuits will be needed.

To compensate for this uncertainty, USWC has proposed to recalculate the EAS rates one year after implementation of the EAS route based on the number of circuits actually used to provide the new service. This is a reasonable proposal and the Commission will approve it.

2. Cost of Money

The Department argued that USWC used a cost of money in its cost studies that was too high and would result in EAS rates that would not maintain the Company income neutral.

USWC countered that its 13.4 percent cost of money was reasonable. The Company stated that in calculating its cost of money it used forward looking debt, equity, and a target capital structure. It argued that it was appropriate to use forward looking costs.

The Commission notes that acceptable cost studies are based on estimates of a number of factors: traffic, facilities, maintenance and overhead, taxes, and cost of capital. Those estimates, of course, must be reasonable. One indicator of the reasonableness of USWC's cost of capital figure is that it is

¹ ORDER REQUIRING COST STUDIES AND PROPOSED RATES, Docket No. P-421/CP-91-487 (October 22, 1992).

below the 13.5 percent sharing threshold established by the Commission in the incentive plan and that USWC's method of calculating that figure (relying on forward looking costs) is reasonable. Further, USWC's figure does not produce rates that are significantly different from those calculated using the Department's proposed figure. For example, the effect of using the Department's cost of money figure on this route for the 1FR customer is unlikely to be more than \$.006 per month. In addition, this cost of money figure would be approved solely in the context of establishing EAS rates.

In these circumstances, the Commission finds that USWC's cost of money figure is within the range of reasonableness for the limited purpose at hand and will approve its use.

3. Allocation of EAS Costs

With regard to apportioning EAS costs between petitioning and petitioned exchanges, the EAS statute divides EAS petitions into two groups: petitions for EAS to the metropolitan calling area (MCA) and all other EAS petitions. For petitions to the metropolitan calling area (MCA) the statute mandates that the petitioning exchange rates defray 75% of the costs of providing EAS. For other petitions, the statute leaves to the sound discretion of the Commission what percentage (between 50 and 75%) of EAS costs the petitioning exchange will be required to defray in its rates.

The Department argued that because the EAS implementation process allows Braham subscribers to vote whether EAS will be installed but denies the same opportunity to subscribers in the petitioned local calling area, it is fair that Braham subscribers defray the maximum statutory amount of EAS costs, i.e. 75% of those costs. The Department has made this same argument in several previous EAS rate setting cases.

The Commission has never found this argument persuasive.² The legislature did not establish a link between voting and payment of 75% of the costs. According to the statutory process, subscribers in the petitioning exchange are always the only subscribers polled. Since the legislature stated that rates for non-metro petitions could be set between 50 and 75 percent, it is clear that the legislature intended other factors to control the percentage of costs to be allocated to the petitioning exchange.

² For a similar discussion and analysis of this issue see: In the Matter of a Petition for Extended Area Service From the Loman Exchange to the International Falls, Ericsburg, and Ranier Exchanges, Docket No. P-407/CP-90-547, ORDER ADOPTING RATES FOR POLLING (March 25, 1992).

In making the allocation determination, the Commission considers the interests of all parties to determine a fair and equitable rate, as required by Minn. Stat. § 237.161, subd. 3 (b) (1990). In so doing, the Commission considers such factors as the comparative benefits that installation of EAS will bring to the exchanges in question, the comparative burden borne by the exchanges under various apportionment plans. As noted in previous Orders considering this question, the benefits to be derived from the proposed EAS are not totally one-sided. After all, toll free calling from Braham to Mora would not simply benefit the calling party in Braham. It would also benefit the Mora recipients of those calls. Further, analysis of the benefit must take into account not only the number of calls currently placed between the petitioning exchange and Mora, but must also consider the value to Mora of the additional calls from the petitioning exchange that EAS will stimulate. Finally, it is likely that the proposed EAS will also stimulate additional calling from the petitioned exchange to the petitioning exchange.

In this case, the subscriber base of the petitioning exchange is significantly smaller than that of the petitioned Mora exchange. Braham has 1,916 lines and Mora has 4,261 lines in service. As a consequence, the impact of EAS costs on Braham subscribers will be much greater than on Mora subscribers. In light of this disparate impact and the comparative value of the service to the two exchanges, the Commission finds that a 60/40 allocation of EAS expenses between the petitioning and petitioned exchanges is appropriate and will result in fair and reasonable rates.

ORDER

1. The Commission hereby adopts EAS rate additives for the EAS route proposed between Braham and Mora based on U S West Communications, Inc.'s (USWC's) cost study and allocating 60 percent of the EAS costs to the Braham exchange and 40 percent of those costs to the Mora exchnage. The adopted rates are as follows:

BRAHAM		MORA	
<u>Class of Service</u>	<u>Rates</u>	<u>Class of Service</u>	<u>Rates</u>
1FR	\$1.56	1FR	\$.44
1FR Key	\$1.60	1FR Key	\$.44
2FR	\$1.17	2FR	\$.30
1FB	\$3.87	1FB	\$1.07
1FB Key	\$4.07	1FB Key	\$1.13
Trunk	\$4.46	Trunk	\$1.24
Semi Pub	\$3.87	Semi Pub	\$1.07

2. U S West Communications, Inc. (USWC) shall cooperate fully with Commission Staff and Commission contractors to expedite the polling of Braham subscribers. As part of this cooperation, USWC shall provide Commission Staff or its contractor upon request with a customer list for the Braham exchange and associated information in a timely fashion.
3. If the proposed route is approved, USWC shall recalculate rates one year after EAS is installed over such route, file its results with the Commission, and serve a copy on the Department for its investigation.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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